

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 EUR-12 ISO-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
STR-05 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01
/092 W

-----001790 292218Z /64

R 291831Z NOV 77

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 6179

INFO AMEMBASSY BRASILIA

AMEMBASSY BOGOTA

AMEMBASSY GUATEMALA

AMEMBASSY LONDON

AMEMBASSY MANAGUA

AMCONSUL RIO DE JANEIRO

AMEMBASSY SAN JOSE

AMCONSUL SAO PAULO

AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A

TAGS: ETRD, EAGR, ES

SUBJECT: COFFEE: IMPACT OF COMMODITIES FUTURES TRADING

COMMISSION ACTION ON DECEMBER CONTRACT

REF: SAN SALVADOR 5252

1. LAST WEEKS'S CFTC ACTION RESTRICTING TRADING ON DECEMBER
CONTRACT TO LIQUIDATION WILL HAVE SERIOUS IMPACT ON
SALVADORAN COFFEE COMPANY. SOURCE CLOSE TO COFFEE COMPANY
TOLD EMBOFF THAT, IF CFTC ACTION CAUSES PRICE TO DROP
BELOW \$2.10, COMPANY WILL TAKE SERIOUS LOSSES IN LIQUIDATING
ITS POSITIONS. EARLIER IN CONVERSATION, SAYING HE HAD SEEN
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BOOKS, SOURCE ESTIMATED POSSIBLE LOSSES ON ORDER OF
\$40 O \$50 MILLION. COFFEE COMPANY DIRECTOR FALLA
SPOKE OF EVEN HIGHER LOSSES. ALLOWING FOR HYPERBOLE
TO IMPRESS EMBASSY BUT CONSIDERING REPORTED EXTENT OF
COFFEE COMPANY LONG POSITIONS, LOSSES ON ORDER OF
TENS OF MILLIONS OF DOLLARS APPEAR A DISTINCT POSSI-
BILITY FOR COMPANY. COMPANY ALSO STANDS TO LOSE ON

ITS CONSIDERABLE HOLDINGS OF PHYSICAL COFFEE IF MARKET FALLS.

2. COMPANY OFFICIALS CHARGE THAT CFTC ACTION CONSTITUTES CHANGING OF RULES IN MID-GAME WITH AIM OF DEPRESSING PRICES FOR BENEFIT OF US ROASTERS. THEY ARGUE THAT CFTC MONITORS POSITIONS OF TRADERS ON DAILY BASIS AND THAT IT SHOULD HAVE PREVENTED COMPANY FROM BUILDING UP LARGE LONG POSITION, RATHER THAN ALLOWING BUILD-UP TO OCCUR AND THEN SUDDENLY CHANGING RULES.

3. FULLY CONSCIOUS OF DANGER OF "CLIENTITIS", I WISH TO OBSERVE THAT CURRENT SITUATION BETWEEN CFTC AND COMPANY HAS DETERIORATED TO POINT OF DAMAGING BOTH SALVADORAN AND US INTERESTS. WHILE IT CLEARLY IS US INTEREST NOT TO PERMIT MANIPULATION OF MARKET BY PRODUCER INTERESTS, SUDDEN ACTIONS, SUCH AS RULE CHANGE FOR DECEMBER CONTRACT, INVOLVE SERIOUS COSTS FOR EL SALVADOR WHICH WILL ULTIMATELY BE BORNE BY SALVADORAN PUBLIC, AND DISPROPORTIONATELY BY LOWER INCOME SECTORS. LOSSES TO EL SALVADOR ON ORDER OF TENS OF MILLIONS WOULD NEGATE SEVERAL YEARS OF RESOURCE TRANSFERS UNDER BILATERAL ASSISTANCE PROGRAMS. FURTHER, LOSSES ON THIS ORDER OF MAGNITUDE THREATEN TO CREATE GOVERNMENT-TO-GOVERNMENT POLITICAL PROBLEM. WHATEVER FORMAL LEGAL SITUATION MAY BE, CFTC IN DEALING WITH COMPANY IS ACTUALLY DEALING WITH GOES, NOT WITH A PRIVATE TRADER.

4. COFFEE COMPANY DIRECTOR RICARDO FALLA HAS INDICATED SEVERAL TIMES TO EMBOFFS HIS WILLINGNESS TO NEGOTIATE LIMITED OFFICIAL USE

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ORDERLY WITHDRAWAL FROM MARKET OR OTHER ARRANGEMENTS FOR COFFEE COMPANY PARTICIPATION. MOST RECENT INDICATION OF WILLINGNESS TO NEGOTIATE WAS REPORTED IN REFERENCED IMMEDIATE CABLE. IT WOULD APPEAR PREFERABLE TO ME TO EXPLORE THIS WAY OUT OF PROBLEM RATHER THAN ALLOWING SITUATION OF CONFRONTATION TO DEVELOP INVOLVING SERIOUS FINANCIAL LOSSES TO FRIENDLY DEVELOPING COUNTRY, POSSIBLE DAMAGE TO US RELATIONS WITH EL SALVADOR AND OTHER COFFEE PRODUCING COUNTRIES, AND POSSIBLE HARM TO NEW YORK MARKET.

5. IN DISCUSSION WITH EMBOFF, FALLA INDICATED HIS WILLINGNESS TO BE IN WASHINGTON AS EARLY AS FRIDAY, DECEMBER 2, TO DISCUSS SITUATION WITH US OFFICIALS. I STRONGLY URGE THAT DEPARTMENT TAKE INITIATIVE TO ENCOURAGE NEGOTIATION BETWEEN FALLA AND CFTC TO FIND A SATISFACTORY WAY OUT OF THIS SITUATION. PLEASE ADVISE AS SOON AS POSSIBLE WHETHER WE SHOULD TELL FALL TO GO TO WASHINGTON.

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Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COFFEE, COMMODITIES, CONTRACTS
Control Number: n/a
Copy: SINGLE
Sent Date: 29-Nov-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
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Drafter: n/a
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Executive Order: N/A
Errors: N/A
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vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/1718b71e-c288-dd11-92da-001cc4696bcc
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